



## **GRUPO ISOLUX CORSÁN, S.A. AND SUBSIDIARIES**

Discussion on the areas of the consolidated financial statements that could be affected by a conversion to Accounting Principles Generally Accepted in the United States of America (US GAAP)



July 5, 2013

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For the attention of Mr. José Ramón Ballesteros – Director of Operations

According to your instructions, as a result of the request for qualifications to develop, design, build, finance, operate and maintain the I-69 Section 5 project through an availability payment concession pursuant to a public-private partnership agreement, Grupo Isolux Corsán, S.A. and subsidiaries' ("the Group"), as the financially responsible party has to provide to the Indiana Finance Authority, a letter from a certified public accountant discussing a summary of the areas of the financial statements that would be potentially affected by a conversion to US GAAP.

The Group's consolidated financial statements for the year ended December 31, 2012 have been prepared in accordance with the International Financial Reporting Standards adopted by the EU (IFRS-EU).

Certain differences exist between the Group's accounting policies (IFRS-EU) and US GAAP which might be material to the consolidated financial information relating the balance sheet and the income statement herein. The following paragraphs summarize certain differences between IFRS-EU and US GAAP that may be material. No attempt has been made to include options of voluntary early application. We have not performed an examination or a review in accordance with generally accepted auditing standards or attestation standards.

The Group has not quantified these differences nor has it prepared a complete reconciliation of its consolidated financial statements and related footnote disclosures between IFRS-EU and US GAAP. Had the Group undertaken any such quantification or reconciliation, other potentially significant differences may have come to its attention which is not identified below. Accordingly, we cannot offer any assurance that the differences described below would, in fact, be the accounting principles creating the greatest differences between the Group's consolidated financial statements prepared under IFRS-EU and under US GAAP, nor that the summary below represents all principal differences related to the Group's consolidated financial statements. However, the effect of such differences may be, individually or in the aggregate, material, and in particular, it may be that the income and total shareholder's equity, prepared on the basis of US GAAP, would be materially different due to these differences.

We have analyzed the potential differences between IFRS-EU and US GAAP for the year presented. No attempt has been made to identify future differences between IFRS-EU and US GAAP as the result of prescribed changes in accounting standards. Regulatory bodies that promulgate IFRS-EU and US GAAP have significant on-going projects that could affect future comparisons. Finally, no attempt has been made to identify future differences between IFRS-EU and US GAAP that may affect the Group's consolidated financial statements as a result of transactions or events that may occur in the future nor to analyze differences in presentation including disclosures and classification, or to identify differences in the statement of comprehensive income, the statement in changes of equity or the cash flow statement.

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**SUMMARY OF POTENTIAL DIFFERENCES BETWEEN INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EU (IFRS-EU) AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA (US GAAP)**

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## **1. First-time adoption of accounting framework**

### *IFRS-EU*

IFRS-EU first-time adoption as the primary accounting basis requires full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements, with some optional exemptions (i.e. business combinations) and limited mandatory exceptions. Comparative information must be prepared and presented on the basis of IFRS-EU. Almost all adjustments arising from the first-time application of IFRS-EU must be adjusted against opening retained earnings of the first period presented on an IFRS-EU basis.

### *US GAAP*

US GAAP Accounting principles must be consistent for financial information presented in comparative financial statements. US GAAP does not give any specific guidance on first-time adoption of its accounting framework. However, first-time adoption of US GAAP requires full retrospective application using the existing guidance applicable as of each date regardless of whether such guidance has been superseded in a subsequent period. Particular standards specify the transitional treatment upon first-time application of a standard.

## **2. Consolidation**

### **i) Consolidation Model**

#### *IFRS-EU*

IFRS-EU follows a principles based view of consolidation. Under IFRS-EU consolidation is focused on the concept of the power to control defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when a parent owns, directly or indirectly, more than 50% of an entity's voting power. IFRS-EU specifically requires potential voting rights currently exercisable or convertible to be considered when assessing control. Control also exists when a parent owns half or less of the voting power, but has legal or contractual rights to control the majority of the entity's voting power or board of directors.

Control may exist even in cases where an entity owns little or none of a special purpose entity (SPE) equity. The application of the control concept requires, in each case, judgment in the context of all relevant factors. When control is not apparent, IFRS-EU requires evaluation of every entity to determine the controlling party. The concept of economic benefit or risk is just one part of the analysis. Other factors considered in the evaluation are the entity's design (e.g. autopilot), the nature of the entity's activities and the entity's governance. In summary, the substance of the arrangement is considered in order to decide the controlling party.

#### *US GAAP*

US GAAP follows a more complex, rules-based view of consolidation, where form can have a greater impact on the accounting. US GAAP has a two tiered consolidation model: one focused on the voting rights (the voting interest model) and the second based on a party's exposure to the risks and rewards of an entity's activities (the variable interest model). All consolidated decisions are evaluated first under the VIE model. Under US GAAP, all entities are evaluated to determine whether they are variable-interest entities (VIEs) and a qualitative model is applied to identify the primary beneficiary. An entity is deemed to have a controlling financial interest in a VIE if it meets both of the following criteria:

- Power to direct activities of the VIE that most significantly impact the VIEs economic performance (power criterion)



- Obligation to absorb losses from or right to receive benefits of the VIE that could potentially be significant to the VIE (losses/benefits criterion)

Consolidation of all non-VIEs is assessed on the basis of voting and other decision-making rights. Unlike IFRS-EU only actual voting rights are considered. The usual condition for a controlling financial interest is ownership of a majority voting interest and, therefore, as a general rule, ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. However, noncontrolling rights may prevent the owner of more than 50 percent of the voting shares from having a controlling financial interest. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree.

## ii) Accounting for joint ventures

### *IFRS-EU*

A joint venture is defined as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an economic activity. Unanimous consent of the parties sharing control, but not necessarily all parties in the venture, is required.

IFRS-EU distinguishes between three types of joint ventures:

- Jointly controlled entities, in which the arrangement is carried on through a separate entity (company or partnership).
- Jointly controlled operations, in which each venture (investor) uses its own assets for a specific project.
- Jointly controlled assets, which is a project carried on with assets that are jointly owned.

IFRS-EU allows either the proportionate consolidation method or the equity method to account for joint ventures.

### *US GAAP*

Under US GAAP, the term joint venture refers only to jointly controlled entities, where the arrangement is carried on through a separate entity.

A corporate joint venture is defined as a corporation owned and operated by a small group of businesses as a separated and specific business or project for the mutual benefit of the members of the group.

Most joint venture arrangements give each venture participating rights over the joint venture (with no single venturer having unilateral control), and each party sharing control must consent to the venture's operating, investing, and financing decisions.

Prior to determining the accounting model, an entity first has to assess whether the joint venture is a VIE. Joint ventures often have a variety of service, purchase, and/or sales agreements that may affect the entity's status as a VIE. Equity interests are often split 50-50 or near 50-50, making nonequity interests (i.e., any variable interests) highly relevant in consolidation decisions. Careful consideration of all relevant contracts and governing documents is critical in the determination of whether a joint venture is within the scope of the variable interest model and, if so, whether consolidation is required.



If the joint venture is not a VIE, venturers apply the equity method to recognize the investment in a jointly controlled entity. Proportionate consolidation is generally not permitted except for unincorporated entities operating in certain industries.

### **3. Capitalization of interest**

#### *IFRS-EU*

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalized as part of the cost of that asset. In broad terms, a qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

Determining the amount of borrowing costs directly attributable to the qualifying asset might require professional judgment. The guidance first states that to the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

#### *US GAAP*

Capitalization of interest costs is required while a qualifying asset is being prepared for its intended use. The guidance does not require that all borrowing costs be included in the determination of a weighted-average capitalization rate. Instead, the requirement is to capitalize the portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided if expenditures for the assets had not been made. If an entity's financing plans associate a specific new borrowing with a qualifying asset, the entity may use the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowings of the entity.

### **4. Goodwill**

#### *IFRS-EU*

Under IFRS-EU, goodwill resulting from a business combination needs to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

Goodwill impairment testing is performed under a one-step approach. The carrying amount of the cash-generating unit, or group of cash generating units, including goodwill allocated, is compared with its recoverable amount, defined as the higher of its fair value less cost to sell or its value in use. If the carrying amount exceeds the recoverable amount, an impairment loss is recorded to reduce the carrying amount of the cash-generating unit (or group of units) to its recoverable amount.

The impairment loss is allocated first to goodwill and then on a pro rata basis to the other assets of the cash-generating unit, or groups of cash-generating units, to the extent that the impairment loss exceeds the book value of goodwill.





## *US GAAP*

Under US GAAP, goodwill is assigned to an entity's reporting units.

Goodwill impairment testing is performed under a two-step approach. However, an entity may first assess qualitative factors to determine whether the two-step goodwill impairment test is necessary. If the entity determines, based on the qualitative assessment, that it is more likely-than-not that the fair value of a reporting unit is below its carrying amount, the two-step impairment test is performed. An entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to Step 1 of the two-step goodwill impairment test.

In Step 1, the fair value and the carrying amount of the reporting unit including goodwill are compared. If the fair value of the reporting unit is less than the carrying amount, Step 2 is completed to determine the amount of the goodwill impairment loss, if any. In Step 2, goodwill impairment is measured as the excess of its carrying amount over its implied fair value, defined as the difference between the fair value of the reporting unit and the fair value of the various assets and liabilities included in the reporting unit.

Any loss recognized is not permitted to exceed the carrying amount of goodwill.

## **5. Impairment of long lived assets**

### *IFRS-EU*

As mentioned before, IFRS-EU uses a one-step impairment test. The carrying amount of an asset is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell or the asset's value in use.

Fair value less cost to sell represents the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties less costs of disposal. This reference to knowledgeable, willing parties is generally viewed as being consistent with the market participant assumptions under US GAAP.

Value in use represents the future cash flows discounted to present value by using a pretax, market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset for which the cash flow estimates have not been adjusted. The use of entity-specific discounted cash flows is required in the value in use analysis. Changes in market interest rates can potentially trigger impairment and, hence, are impairment indicators.

Cash flow estimates used to calculate value in use should include:

- Cash inflows from the continuing use of the asset or the activities of the cash generating unit
- Cash outflows necessarily incurred to generate the cash inflows from continuing use of the asset or cash generating unit, including cash outflows to prepare the asset for use; and that are directly attributable to the asset or cash generating unit
- Cash outflows that are indirectly attributable, such as those relating to central overheads, but that can be allocated on a reasonable and consistent basis to the asset or cash generating unit
- Cash outflows expected to be received or paid for the disposal of asset or cash generating unit at the end of their useful lives
- Cash outflows to maintain the operating capacity of existing assets, including, for example, cash flows from day-to-day servicing



Cash flow projections used to measure value in use should be based on reasonable and supportable assumptions of the set of economic conditions that will exist over the asset's remaining useful life. Cash flows expected to arise from future restructurings or from improving the asset's performance should be excluded.

Projections based on management's budget/forecast shall cover a maximum period of five years, unless a longer period can be justified.

Estimates of cash flow projections beyond the period covered by the most recent budgets/forecasts should extrapolate the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country in which the entity operates, or for the market in which the asset is used.

A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another IFRS. After a reversal of an impairment loss is recognized, the depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### *US GAAP*

US GAAP requires a two-step impairment test. In Step 1, the carrying amount is compared with the undiscounted cash flows. If the carrying amount is higher than the undiscounted cash flows, in Step 2 an impairment loss is measured as the difference between the carrying amount and fair value, defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The calculation of fair value no longer will default to a present value technique. Although present value techniques might be appropriate, the reporting entity must consider all appropriate valuation techniques in the circumstances. If the asset is recoverable based on undiscounted cash flows, the discounting or fair value type determinations are not applicable.

Future cash flow estimates used in an impairment analysis should include:

- All cash inflows expected from the use of the long-lived asset or asset group over its remaining useful life, based on its existing service potential
- Any cash out flows necessary to obtain those cash inflows, including future expenditures to maintain (but not improve) the long-lived asset or asset group
- Cash flows associated with the eventual disposition, including selling costs, of the long-lived asset or asset group

The remaining useful life of a group of assets over which cash flows may be considered should be based on the remaining useful life of the "primary" asset of the group.

Expected future cash flows should represent management's best estimates and should be based on reasonable and supportable assumptions consistent with other assumptions made in the preparation of the financial statements and other information used by the entity for comparable periods.

The reversal of impairments is prohibited.





## **6. Investment properties**

### *IFRS- EU*

Under IFRS-EU, property (land and/or buildings) held in order to earn rentals and/or capital appreciation is separately defined. The definition does not include owner-occupied property, property held for sale in the ordinary course of business or property being constructed or developed. Properties under construction or development for future use as investment properties are within the scope of investment properties. Investment property may be accounted for on a historical-cost basis or on a fair value basis.

### *US GAAP*

Under US GAAP, there is no specific definition of investment property.

The historical-cost model is used for most real estate companies and operating companies holding investment-type property.

## **7. Derivative financial instruments and hedge accounting**

### **i) General**

Derivatives and hedging represent one of the more complex and nuanced topical areas within both US GAAP and IFRS-EU. While IFRS-EU is generally viewed as fewer rules laden than US GAAP, the difference is less dramatic in relation to derivatives and hedging wherein both frameworks embody a significant volume of detailed implementation guidance. Although the hedging models under IFRS-EU and US GAAP are founded on similar principles, there are a number of application differences. Some of the differences result in IFRS-EU being more restrictive than US GAAP, whereas other differences provide more flexibility under IFRS-EU.

### **ii) Effectiveness testing and measurement of hedge ineffectiveness**

#### *IFRS-EU*

IFRS-EU does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The method an entity adopts depends on the entity's risk management strategy and is included in the documentation prepared at the inception of the hedge. The most common methods used are the critical terms comparison, the dollar-offset method and regression analysis.

#### *US GAAP*

US GAAP does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The method an entity adopts depends on the entity's risk management strategy and is included in the documentation prepared at the inception of the hedge. US GAAP provides for a shortcut method that allows an entity to assume no ineffectiveness (and, hence, bypass an effectiveness test) for certain fair value or cash flow hedges of interest rate risk using interest rate swaps (when certain stringent criteria are met). IFRS-EU does not allow a shortcut method by which an entity may assume no ineffectiveness.

Under US GAAP, for hedges that do not qualify for the shortcut method, if the critical terms of the hedging instrument and the entire hedged item are the same, the entity can conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset. IFRS-EU does not specifically discuss the methodology of applying a matched-terms approach in the level of detail included within US GAAP. Even if the principal terms are the same, retrospective effectiveness is still measured in all cases, since IFRS-EU precludes the assumption of perfect effectiveness.



### iii) Embedded Derivatives

US GAAP and IFRS-EU require separation of derivatives embedded in hybrid contracts when the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract, when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and when the hybrid instrument is not measured at fair value through profit or loss. US GAAP and IFRS-EU provide an option to value certain hybrid instruments at fair value instead of bifurcating the embedded derivative.

There are a series of detail differences between US GAAP and IFRS-EU related to the treatment of certain types of embedded derivatives. For example, there are differences in relation to what is meant by closely related, the need to reassess whether an embedded derivative needs to be separated, treatment of calls and puts in debt instruments and treatment of synthetic collateralized debt obligations. The various debt instruments of the group may contain features that could be considered embedded derivatives where bifurcation is required under IFRS-EU but not US GAAP and vice versa.

#### *IFRS-EU*

In contracts denominated in currencies other than that of the parties to the contract, bifurcation of a foreign currency embedded derivative from a non-financial host is not required if payment is (1) denominated in the local currency or functional currency of a substantial party to the contract, (2) the price that is routinely denominated in that foreign currency in international commerce (e.g., US dollar for crude oil transactions), or (3) payments are denominated in a currency that is commonly used to purchase or sell such nonfinancial items in the economic environment in which the transaction takes place.

#### *US GAAP*

Under US GAAP, criterion (3) cited for IFRS-EU does not exist. Bifurcation in contracts denominated in currencies other than that of the parties to the contract, is required unless the payment is routinely denominated in that foreign currency in international commerce, or any of the parties operate in a hyperinflationary environment.

### iv) Calls and puts in debt host instruments

#### *IFRS-EU*

Calls, puts or prepayments options embedded in a hybrid instrument are closely related to the debt host instrument if either (1) the exercise price approximates the amortized cost on each exercise date or (2) the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of the lost interest for the remaining term of the host contract.

Once determined to be closely related, these items do not require bifurcation.

#### *US GAAP*

US GAAP has a fundamentally different approach to assessing whether puts and calls embedded in debt host instruments require bifurcation.

Multiple tests are required in evaluating whether an embedded call or put is clearly and closely related to the debt host. The failure of one or both of the below outlined tests is common and typically results in the need for bifurcation.

Test 1 – If a debt instrument is issued at a substantial premium or discount and a contingent call or put can accelerate repayment of principal, then the call or put is not clearly and closely related.



Test 2 – If there is no contingent call or put that can accelerate repayment of principal, or if the debt instrument is not issued at a substantial premium or discount, then it must be assessed whether the debt instrument can be settled in such a way that the holder would not recover substantially all of its recorded investments or the embedded derivative would at least double the holder's initial return and the resulting rate would be double the then current market rate of return. However, this rule is subject to certain exceptions.

v) Cash flow hedges of forecasted transactions

*IFRS-EU*

Under IFRS-EU the hedging reserve related to a discontinued cash flow hedge of a highly probable forecasted transaction is maintained in other comprehensive income as long as the forecasted transaction continues to be highly probable and must only be reclassified to profit and loss when the expected transaction occurs.

*US-GAAP*

The requirements for maintaining a cash flow hedge reserve of forecasted transactions after the expected date of occurrence are more restrictive under US GAAP.

The net derivative instrument gain or loss related to a discontinued cash flow hedge shall continue to be reported in accumulated other comprehensive income unless it is probable that the forecasted transaction will not occur by the end of the originally specified time period (as documented at the inception of the hedging relationship) or within an additional two-month period of time thereafter, except as indicated in the following sentence.

In rare cases, the existence of extenuating circumstances that are related to the nature of the forecasted transaction and are outside the control or influence of the reporting entity may cause the forecasted transaction to be probable of occurring on a date that is beyond the additional two-month period of time, in which case the net derivative instrument gain or loss related to the discontinued cash flow hedge shall continue to be reported in accumulated other comprehensive income until it is reclassified into earnings

## **8. Inventories**

*IFRS-EU*

Inventories are measured at the lower of cost and net realizable value. A number of costing methodologies such as FIFO or weighted-average costing are permitted. However, the use of LIFO is precluded.

Reversals of inventory write-downs, limited to the amount of the original write-down, are required for subsequent recoveries.

*US GAAP*

Inventories are measured at the lower of cost or market, the term market means current replacement cost (by purchase or by reproduction, as the case may be) provided that it meets both of the following conditions:

- Market shall not exceed the net realizable value (estimated selling price less costs of completion and sale)



- Market shall not be less than net realizable value reduced by an allowance for an approximately normal profit margin

Under US GAAP, LIFO valuation is permitted.

Reversals of inventory write-downs are prohibited.

## **9. Biological assets**

### *IFRS-EU*

The accounting treatment for biological assets requires measurement at fair value less costs to sell at initial recognition and at each subsequent reporting date. There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell.

All changes in fair value are recognized in the income statement in the period in which they arise.

### *US GAAP*

Historical cost generally is used for biological assets. These assets are tested for impairment in the same manner as other long-lived assets.

## **10. Derecognition of financial assets**

### *IFRS-EU*

The guidance focuses on evaluating whether a qualifying transfer has taken place, whether risks and rewards have been transferred and, in some cases, whether control over the asset(s) in question has been transferred.

The transferor first applies the consolidation guidance and consolidates all subsidiaries or special purpose entities it controls.

The next step is to determine whether derecognition principles should be applied to a financial asset (or a group of similar financial assets) in its entirety or to a part of a financial asset (or a part of a group of similar financial assets).

Derecognition principles are applied to a part of a financial asset if, and only if, the part being considered for derecognition meets one of the following three conditions:

- i) The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets).
- ii) The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets).
- iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

Under IAS 39, full derecognition is appropriate once both of the following conditions have been met:

- The financial asset has been transferred outside the consolidated group.
- The entity has transferred substantially all of the risks and rewards of ownership of the financial asset.

The first condition is achieved in one of two ways:

- When an entity transfers the contractual rights to receive the cash flows to a third party.
- When an entity retains the contractual rights to receive the cash flows from the asset, but assumes a contractual obligation to pass on the cash flows to one or more recipients (pass-through arrangement). A transaction qualifies as a pass-through arrangement if the following conditions are met:
  - The entity has no obligation to pay cash flows unless equivalent cash flows from the transferred asset are collected.
  - The entity is prohibited from selling or pledging the asset—other than as security to the eventual recipients for the obligation to pay them cash flows.
  - The entity is obligated to remit any cash flows without material delay and subject to certain investment restrictions.

If any of the three conditions listed above are not met, the transaction does not meet the definition of a pass-through and the financial asset is not derecognized.

If the transaction qualifies as a transfer of contractual rights or as a pass-through arrangement, the risks and rewards of the transferred assets must be assessed further to determine whether the assets can be derecognized.

Under the derecognition criteria:

1. The entity considers whether it has transferred substantially all the risks and rewards of ownership of the asset. If so, the entity derecognizes the asset.

IAS 39 requires evaluating the extent of the entity's transfer of risks and rewards by comparing its exposure to the variability in the amounts and timing of the transferred financial assets' net cash flows, before and after the transfer.

If all risks and rewards are substantially transferred, the entity would derecognize the financial asset transferred and recognize separately any asset or liability created through any rights and obligations retained in the transfer.

2. If the entity retains substantially all the risks and rewards of ownership of the asset, the entity continues to recognize the financial asset and a liability equal to the consideration received would be recorded.
3. If the entity neither transfers nor retains substantially all the risks and rewards of ownership of the asset, the entity has to determine whether it has retained control of the asset. Whether the entity has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control. In all other cases, the entity has retained control.





If the entity has lost control, the asset is derecognized. If the entity has retained control, it continues to recognize the asset to the extent of its continuing involvement. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. Continuing involvement is measured as either the maximum amount of consideration received that the entity could be required to pay (in the case of guarantees) or the amount of the transferred financial assets that the entity may repurchase (in the case of a repurchase option).

#### *US GAAP*

The US GAAP guidance on derecognition of financial assets focuses on an evaluation of the transfer of control governed by three key considerations:

- Legal isolation of the transferred asset from the transferor: Assets must be isolated from the transferor and beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- The ability of the transferee to pledge or sell the asset: the transferee must be able to pledge or exchange the transferred asset free from constraint. The transferor can (a) retain the right of first refusal for a bona fide offer to the transferee from a third party, (b) require the transferee to obtain the transferor's permission to sell or pledge (which is not to be withheld unreasonably), or (c) prohibit the sale of the transferred asset to the transferor's competitor if other potential willing buyers exist.
- No right or obligation of the transferor to repurchase: the transferor cannot maintain effective control through (a) an agreement that entitles and obligates the transferor to repurchase or redeem assets before their maturity or (b) the ability to unilaterally cause the holder to return specific assets (except for a "clean-up" call, as defined in US GAAP).

As such, derecognition can be achieved even if the transferor has significant ongoing involvement with the assets, such as the retention of significant exposure to credit risk.

There is no concept of continuing involvement/partial derecognition under US GAAP. When accounting for a transfer of an individual financial asset or a group of financial assets that qualifies as a sale, the assets transferred in the sale must be derecognized from the transferor's balance sheet. The total carrying amount of the asset is derecognized and any assets and liabilities retained are recognized at fair value. The transferor should separately recognize any servicing assets or servicing liabilities retained in the transfer at their fair values. A gain or loss on the transfer is calculated as the difference between the net proceeds received and the carrying value of the assets sold.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the transferor and transferee shall account for the transfer as a secured borrowing with pledge of collateral.

## **11. Government grants**

#### *IFRS-EU*

Government grants are recognized once there is reasonable assurance that both (1) the conditions for their receipt will be met and (2) the grant will be received. Revenue-based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that they are intended to compensate. Capital-based grants are deferred and matched with the depreciation on the asset for which the grant arises.





Grants that involve recognized assets are presented in the balance sheet either as deferred income or by deducting the grant in arriving at the asset's carrying amount, in which case the grant is recognized as a reduction of depreciation.

#### *US GAAP*

US GAAP is similar to IFRS-EU except when there are conditions attached to the grant, recognition of the grant is delayed until such conditions have been fulfilled. Contributions of long-lived assets or for the purchase of long-lived assets are to be credited to income over the expected useful life of the asset for which the grant was received.

### **12. Deferred tax assets**

Generally, both IFRS-EU and US GAAP follow the liability method to account for deferred taxes. As such, deferred tax assets and liabilities need to be recorded for all temporary differences between the tax basis and the carrying amount recorded in the consolidated financial statements that reverse in future periods.

#### *i) Uncertain tax positions*

##### *IFRS-EU*

Accounting for uncertain tax positions is not specifically addressed within IFRS-EU. The tax consequences of events should follow the manner in which an entity expects the tax position to be resolved (through either payment or receipt of cash) with the taxation authorities at the balance sheet date.

Practice has developed such that uncertain tax positions may be evaluated at the level of the individual uncertainty or group of related uncertainties. Alternatively, they may be considered at the level of total tax liability to each taxing authority.

Acceptable methods by which to measure tax positions include (1) the expected-value/probability-weighted average approach and (2) the single-best-outcome/most-likely-outcome method. Use of the cumulative probability model required by US GAAP is not supported by IFRS-EU.

##### *US GAAP*

Uncertain tax positions are recognized and measured using a two-step process that separates recognition from measurement. The first step is to determine whether a tax position may be recognized and the second is to measure the amount of the tax position. The recognition threshold is met when the taxpayer (the reporting entity) concludes that it is more likely than not that the taxpayer will sustain the benefit taken or expected to be taken in the tax return in a dispute with taxing authorities if the taxpayer takes the dispute to the court of last resort.

A tax position that meets the more-likely-than-not recognition threshold shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Measurement of a tax position that meets the more-likely-than-not recognition threshold shall consider the amounts and probabilities of the outcomes that could be realized upon settlement using the facts, circumstances, and information available at the reporting date but not the probability of detection.



The appropriate unit of account for determining what constitutes an individual tax position, and whether the more-likely-than-not recognition threshold is met for a tax position, is a matter of judgment based on the individual facts and circumstances of that position evaluated in light of all available evidence. The determination of the unit of account to be used shall consider the manner in which the entity prepares and supports its income tax return and the approach the entity anticipates the taxing authority will take during an examination. Because the individual facts and circumstances of a tax position and of an entity taking that position will determine the appropriate unit of account, a single defined unit of account would not be applicable to all situations.

ii) Intraperson allocations

*IFRS-EU*

Subsequent changes in deferred tax balances due to enacted tax rate and tax law changes are recognized in the income statement, except to the extent that the tax arises from a transaction or event that is recognized, in the same or a different period, directly in equity.

*US GAAP*

Subsequent changes in deferred tax balances due to enacted tax rate and tax law changes are taken through the statement of operations regardless of whether the deferred tax was initially created through the statement of operations, through equity or in purchase accounting.

Subsequent changes in deferred tax assets (by changes in the amount of valuation allowances) due to changes in assessment about realization in future periods are generally taken through the statement of operations, with limited exceptions for certain equity-related items.

iii) Recognition of deferred tax assets

*IFRS-EU*

Deferred taxes are recognized when it is considered probable, defined as more likely than not, that sufficient taxable profit will be available to utilize the temporary difference or unused tax losses.

Valuation allowances are not allowed to be recorded.

*US GAAP*

Deferred taxes are recognized in full, but are then reduced by a valuation allowance if it is considered more likely than not that some portion of the deferred taxes will not be realized.

iv) Presentation

*IFRS-EU*

Generally, deferred tax assets and deferred tax liabilities are classified net (within individual tax jurisdictions and if there is a legally enforceable right to offset) as noncurrent on the balance sheet. Supplemental note disclosures are included to describe the components of temporary differences as well as the recoverable amount bifurcated between amounts recoverable less than or greater than one year from the balance sheet date.



#### *US GAAP*

The classification of deferred tax assets and deferred tax liabilities follows the classification of the related, nontax asset or liability for financial reporting (as either current or noncurrent). If a deferred tax asset is not associated with an underlying asset or liability, it is classified based on the anticipated reversal periods. Any valuation allowances are allocated between current and noncurrent deferred tax assets for a tax jurisdiction on a pro rata basis. For a particular tax-paying component of an entity and within a particular tax jurisdiction, all current deferred tax liabilities and assets shall be offset and presented as a single amount and all noncurrent deferred tax liabilities and assets shall be offset and presented as a single amount. However, an entity shall not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions.

### **13. Provisions and contingencies**

#### **i) Recognition**

##### *IFRS-EU*

A contingent liability is defined as a possible obligation whose outcome will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events outside the entity's control.

A contingent liability is not recognized. A contingent liability becomes a provision and is recorded when three criteria are met: a present obligation from a past event exists, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made.

The term probable is used for describing a situation in which the outcome is more likely than not to occur. Generally, the phrase more *likely than not* denotes any chance greater than 50 percent.

##### *US GAAP*

Under US GAAP, a loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

An accrual for a loss contingency is required if two criteria are met: if it is probable that the liability has been incurred and if the amount of the loss can be reasonably estimated.

Implicit in the first condition above is that it is probable that one or more future events will occur confirming the fact of the loss.

The guidance uses the term probable to describe a situation in which the outcome is likely to occur. While a numeric standard for probable does not exist, practice generally considers an event that has a 75 percent or greater likelihood of occurrence to be probable.

#### **ii) Measurement**

##### *IFRS-EU*

Under IFRS-EU, provisions for contingencies are measured at the amount an entity would rationally pay to settle or transfer to a third party the obligation at the balance sheet date. That is, the best estimate to settle the obligation, which generally involves the expected value method (discounting is required) if it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligations.

Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the midpoint of the range is used.

#### *US GAAP*

Under US GAAP, a single standard does not exist to determine the measurement of obligations; therefore, entities must refer to guidance established for specific obligations (e.g. environmental or restructuring) to determine the appropriate measurement methodology. Pronouncements do not necessarily have settlement price or even fair values as an objective in the measurement of liabilities, and the guidance often describes an accumulation of the entity's cost estimates.

A provision can only be discounted if the amount and the timing of payments are fixed or reliably determinable (considering the nature of provisions, this means that it can be difficult to account for a provision on a discounted basis).

If any outcome within the range is more likely, then that outcome should be accrued. When no amount within a range is a better estimate than any other amount, the low end of the range is accrued.

## **14. Revenue recognition**

### **i) General**

#### *IFRS-EU*

IFRS-EU has two primary revenue standards and three revenue focused interpretations. The broad principles laid out in IFRS-EU are generally applied without further guidance or exceptions for specific industries.

IFRS-EU captures all revenue transactions within one of four broad categories:

- Sale of goods.
- Rendering of services.
- Others' use of an entity's assets (yielding interest, royalties, etc.)
- Construction contracts.

Revenue recognition criteria for each of these categories include the probability that the economic benefits associated with the transaction will flow to the entity and that the revenue and costs can be measured reliably. Additional recognition criteria apply within each broad category.

While the price that is regularly charged by an entity when an item is sold separately is the best evidence of the item's fair value, reasonable estimates of fair value such as cost plus a margin may, in certain circumstances, be acceptable alternatives.

#### *US GAAP*

US GAAP revenue recognition guidance is extensive and includes a volume of literature issued by various US standard setters.

Generally, the guidance focuses on revenue being either realized or realizable and earned. Revenue recognition is considered to involve an exchange transaction; that is, revenue should not be recognized until an exchange transaction has occurred. These rather straightforward concepts are, however, augmented with detailed rules.



One of the most common general revenue recognition issues has to do with (1) the determination of when transactions with multiple deliverables should be separated into components and (2) the way revenue gets allocated to the different components. While the broad concepts in this area are similar and often result in similar conclusions under both US GAAP and IFRS-EU, the potential for significantly different conclusions also exists. US GAAP focuses on detailed separation and allocation criteria, whereas IFRS-EU focuses on the economic substance of the transaction(s).

For service transactions, US GAAP prohibits the use of the cost-to-cost percentage-of-completion method unless the transaction explicitly qualifies as a particular type of construction or production contract. Most service transactions that do not qualify for these types of construction contracts are accounted for by using the proportional-performance model or the completed performance model. IFRS-EU requires use of the percentage-of-completion method in recognizing revenue under service arrangements unless the outcome of a service transactions cannot be measured reliably in which case a zero-profit model would be used. Revenue may be recognized on a straight-line basis if the services are performed by an indeterminate number of acts over a specified period and no other method better represents the stage of completion.

## ii) Construction contracts

### *IFRS-EU*

Under IFRS-EU, the guidance applies to fixed-price and cost-plus-construction contracts of contractors for the construction of a single asset or a combination of assets that are interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use. The guidance is not limited to certain industries.

Assessing whether a contract is within the scope of the construction contract standard or the broader revenue standard continues to be an area of focus. A buyer's ability to specify the major structural elements of the design either before and/or during construction is a key indicator of construction contract accounting, although not, in and of itself, determinative.

Construction accounting guidance is generally not applied to the recurring production of goods.

IFRS-EU prohibits the use of the completed-contract method. This may result in the acceleration of revenue recognition under IFRS-EU (depending on the specific facts and circumstances). IFRS-EU utilizes a revenue approach to percentage-of-completion. The gross-profit approach is not allowed.

### *US GAAP*

Under US GAAP, the guidance applies to accounting for performance of contracts for which specifications are provided by the customer for the construction of facilities or the production of goods or the provision of related services.

The scope of this guidance generally has been limited to certain specific industries and types of contracts.

Under US GAAP, the percentage-of-completion method is preferred but completed-contract method is required in certain situations, such as when management is unable to make reliable estimates. Within the percentage-of-completion model there are two acceptable approaches: the revenue approach and the gross-profit approach.



## 15. Service concession arrangements

### *IFRS-EU*

IFRIC 12 applies to public-to-private service concession arrangements in which a public sector customer ("grantor") controls or regulates the services to be provided with the infrastructure and their prices, and it is contractually guaranteed that the grantor will control the residual interest in the infrastructure at the end of the term of the arrangement. Pursuant to IFRIC 12, the infrastructure used in a concession is recognized as a financial asset or an intangible asset depending on the nature of payment rights in respect of the concession agreement. If the operator receives a right to charge users of the public service that is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service the infrastructure used is recorded as an intangible asset.

Infrastructures recognized as intangible assets are depreciated on a straight-line basis over the concession period, except certain toll roads concessions which are depreciated following a method based on estimates on traffic during the concession period.

Revenue, costs and margin for providing construction services during the construction period is recognized and measured in accordance with IAS 11 "Construction Contracts" and revenue obtained during the concessional period in accordance with IAS 18 "Revenue".

### *US GAAP*

There is not a specific standard for accounting for concession agreements considered equivalent to IFRIC 12 under US GAAP, therefore concession agreements shall be accounted for using the existing standards or industry practice.

Concession agreements represent contractual agreements with specific parties, thus, as a general rule, the accounting should be analyzed on a contract by contract basis, especially in the absence of a specific standard under US GAAP. Usually, service concession arrangements include the right to use the infrastructure and related buildings and software, a leasehold interest in the land associated with the infrastructure and a concession right to operate the infrastructure. Therefore an analysis of whether a lease exist on the underlying property and equipment associated with the infrastructure operating right should be performed to determine the right accounting of the arrangement.

In general, the accounting for concession arrangements has the following characteristics:

- In most of the cases concession agreements are accounted for as a property, plant and equipment and the costs of constructing the asset are capitalized. No margin would be recognized since the accounting would not be linked to revenue recognition on construction contracts accounting.
- Several methods of depreciation exist, including straight-line, accelerated methods (such as "sum-of-the-years-digits" and declining balance methods), and units-of-production methods.



Straight-line depreciation is based on the premise that depreciation of a productive asset is solely a function of time, not usage. Units-of-production depreciation is based on the premise that depreciation of a productive asset is solely a function of usage, not time. Modified units-of-production ("MUP") depreciation, sometimes referred to as modified straight-line depreciation, is a hybrid of these two depreciation models. MUP depreciation is based on the premise that depreciation of a productive asset is a function of both time and usage. The time factor implies that an asset has a maximum longevity, regardless of usage and depreciation expense cannot be less than the straight-line amount, in the initial years of the concession, which would be calculated using the assets maximum economic life.

- Revenues may be influenced by rate-regulated activities legislation in the case of transmission lines concessions.

## **16. Leases**

### *IFRS-EU*

The guidance focuses on the overall substance of the transaction. A lease is classified as a finance lease if the lease transfers substantially all of the risks and rewards of ownership to the lessee.

While the lease classification criteria identified in US GAAP are considered in classification of a lease under IFRS-EU, there are no quantitative breakpoints or bright lines to apply (e.g. 90 per cent).

A lease of special-purpose assets that only the lessee can use without major modification generally would be classified as a finance lease. This would also be the case for any lease that does not subject the lessor to significant risk with respect to the residual value of the leased property.

### *US GAAP*

Under US GAAP, if any of the following four criteria applies to a lease agreement it would be classified as a finance lease by the lessee:

- The lease transfers ownership of the property to the lessee by the end of the lease term. This criterion is met in situations in which the lease agreement provides for the transfer of title at or shortly after the end of the lease term in exchange for the payment of a nominal fee, for example, the minimum required by statutory regulation to transfer title.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.
- The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at lease inception over any related investment tax credit retained by the lessor and expected to be realized by the lessor. If the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.

## **17. Convertible instruments**

### *IFRS-EU*

For convertible instruments with a conversion feature characterized by a fixed amount of cash for fixed number of shares, IFRS-EU requires bifurcation and split accounting between the liability and equity components of the instrument.

The liability component is recognized at fair value calculated by discounting the cash flows associated with the liability component – at a market rate for nonconvertible debt- and the equity conversion feature is measured as the residual amount and recognized in equity with no subsequent remeasurement.

Equity conversion features within a liability host instruments that fail the fixed-for-fixed requirement are considered embedded derivatives. Such embedded derivatives are bifurcated from the host debt contract and measured at fair value, with changes in fair value recognized in the income statement.

### *US GAAP*

Equity conversion features should be separated from the liability host and recorded separately as embedded derivatives only if certain criteria are met (e.g. fail to meet the scope exception of ASC 815).

If the conversion feature is not recorded separately, then the entire convertible instrument may be considered one unit of account – interest expense would reflect cash interest if issued at par. However, there are a few exceptions:

- For convertible debt instruments that may be settled in cash, the liability and equity components of the instrument should be separately accounted for by allocating the proceeds from the issuance of the instrument between the liability component and the embedded conversion option (i.e. the equity component). This allocation is done by first determining the carrying amount of the liability component based on the fair value of a similar liability excluding the embedded conversion option, and then allocating to the embedded conversion option the excess of the initial proceeds ascribed to the convertible debt instrument over the amount allocated to the liability component.
- A convertible debt may contain a beneficial conversion feature (BCF) when the strike price on the conversion option is “in the money”. The BCF is generally recognized and measured by allocating a portion of the proceeds received, equal to the intrinsic value of the conversion feature, to equity.

## **18. Business combinations**

The business combination standards applicable under US GAAP and IFRS-EU are largely converged, and close in principles and language, with two major exceptions: (1) full goodwill and (2) the requirements regarding recognition of contingent assets and contingent liabilities. Significant differences continue to exist in subsequent accounting.

- i) Allocation of goodwill and impairment testing

### *IFRS-EU*

Goodwill is allocated to cash generating unit (CGU) or group of CGUs.

Goodwill impairment testing is performed under a one step approach as described in section 4 above.



#### *US GAAP*

Goodwill is assigned to the entity's reporting units.

Goodwill impairment testing is performed under a two-step approach as described in section 4 above.

#### ii) Acquired contingencies

##### *IFRS-EU*

The acquiree's contingent liabilities are recognized separately at the acquisition date provided their fair values can be measured reliably. The contingent liability is measured subsequently at the higher of the amount initially recognized less cumulative amortization recognized under the revenue guidance, if appropriate, or the best estimate of the amount required to settle (under the provisions guidance).

Contingent assets are not recognized.

#### *US GAAP*

Acquired assets and liabilities subject to contingencies are recognized at fair value if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. An acquirer shall develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies depending on their nature.

#### iii) Transactions with non-controlling interests

##### *IFRS-EU*

Entities have an option on a transaction-by-transaction basis to measure non-controlling interests at their proportion of fair value of the identifiable net assets or at full fair value. This option applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation. All other components of non-controlling interest are measure at fair value unless another measurement basis is required by IFRS-EU. The use of the full fair value option results in full goodwill being recorded on both the controlling and non-controlling interest.

#### *US GAAP*

Non-controlling interests are measured at fair value.

#### iv) Combinations involving entities under common control

##### *IFRS-EU*

IFRS-EU does not specifically address such transactions. Entities develop and consistently apply an accounting policy. Management can elect to apply purchase accounting or the predecessor value method to a business combination involving entities under common control. The accounting policy can be changed only when criteria for a change in an accounting policy are met in the applicable guidance (i.e., it provides more-reliable and more-relevant information)

#### *US GAAP*

Combinations of entities under common control are generally recorded at predecessor cost, reflecting the transferor's carrying amount of the assets and liabilities transferred.



## **19. Rate - regulated activities**

### *IFRS-EU*

Under IFRS-EU, there is no specific guidance on rate-regulated activities. The IASB is developing a rate-regulated activities project.

### *US GAAP*

Under US GAAP, regulation of an entity's rates (also referred to as prices) is sometimes based on the entity's costs. Regulators use a variety of mechanisms to estimate a regulated entity's allowable costs, and they allow the entity to charge rates that are intended to produce revenue approximately equal to those allowable costs. Specific costs that are allowable for rate-making purposes result in revenue approximately equal to the costs.

In most cases, allowable costs are used as a means of estimating costs of the period during which the rates will be in effect, and there is no intent to permit recovery of specific prior costs. The process is a way of setting prices; the results of the process are reported in general purpose financial statements in accordance with the same accounting principles that are used by unregulated entities.

Regulators sometimes include costs in allowable costs in a period other than the period in which the costs would be charged to expense by an unregulated entity. For the regulated entity, that procedure can do any of the following:

- Create assets (future cash inflows that will result from the rate-making process).
- Reduce assets (reductions of future cash inflows that will result from the rate making process).
- Create liabilities (future cash outflows that will result from the rate-making process).

For general-purpose financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract.

Accounting requirements that are not directly related to the economic effects of rate actions may be imposed on regulated businesses by orders of regulatory authorities and occasionally by court decisions or statutes. This does not necessarily mean that those accounting requirements conform to generally accepted accounting principles (GAAP). For example, a regulatory authority may order an entity to capitalize and amortize a cost that would be charged to income currently by an unregulated entity. Unless capitalization of that cost is appropriate under this Topic, GAAP requires the regulated entity to charge the cost to current income.

Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the GAAP applicable to business entities in general. The mere issuance of an accounting order not tied to rate treatment does not change an entity's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of GAAP.



This letter has been prepared solely for the use of Grupo Isolux Corsán, S.A. and subsidiaries in relation to the proposal as described in the first introductory paragraph above, and should therefore not be used for any other purpose, or distributed to third parties other than the Indiana Finance Authority, without our prior written consent. We do not accept any liability to parties other than the addressee of this report.

Yours faithfully,

PricewaterhouseCoopers Auditores, S.L.

A handwritten signature in blue ink, appearing to read "Rocío Fernández", with a stylized flourish at the end.

Rocío Fernández  
Partner